

Internal Revenue Service

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Date:
June 18, 2015

Legend

X =

Y =

State =

Date1 =

Date2 =

Date3 =

Month =

Dear :

This letter responds to a letter dated October 20, 2014, and subsequent correspondence, requesting a ruling under section 7704 of the Internal Revenue Code.

FACTS

X is a limited partnership organized under the laws of State on Date2.

Y is a limited partnership organized under the laws of State on Date1. The units representing assignments of beneficial ownership of limited partnership interests in Y are publicly traded on the New York Stock Exchange (NYSE). Y represents that it is treated as a partnership for U.S. federal income tax purposes

. On Date3, Y contributed its assets to X in a transaction governed by section 721 and, thereafter, the principal business activity of Y became owning units of limited partnership interest in X. At the time of the transaction, Y offered its unitholders a one-time opportunity to exchange their Y units for X units on a one-for-one basis.

X units are not traded on a public exchange and are subject to substantial transfer restrictions. The X limited partnership agreement prohibits the general partner from consenting to a transfer of X units that does not comply with the publicly-traded partnership safe harbors provided in section 1.7704-1. The general partner is further required to take any and all actions necessary or desirable to prevent a risk of X being classified as a publicly-traded partnership under section 7704.

X provides long-term incentive compensation awards to certain employees in the form of Y units (the Compensation Program). X obtains Y units for its Compensation Program as follows:

1. X purchases Y units for the Compensation Plan throughout the year in accordance with plans disclosed in the SEC documents;
2. Upon X's purchase of Y units, Y promptly cancels such units;
3. X cancels a corresponding number of X units held by Y in order to maintain the one-to-one correlation between outstanding X units and outstanding Y units;
4. In Month of each year, X determines the amount of new awards under the Compensation Program and the number of Y units to be awarded to employees;
5. X and Y issue a corresponding number of new units to each other;
6. Newly issued Y units are awarded to the employees.

LAW AND ANALYSIS

Section 721 provides that, subject to certain exceptions, no gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.

Section 731(a)(1) provides that in the case of a distribution by a partnership to a partner, gain will not be recognized to such partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution.

Section 731(b) provides that a partnership does not recognize gain or loss upon a distribution of property, including money, to a partner.

Section 7704(a) provides that except as provided in section 7704(c), a publicly traded partnership will be treated as a corporation.

Section 7704(b) provides that the term "publicly traded partnership" means any partnership if (1) interests in such partnership are traded on an established securities market and (2) interests in such partnership are readily tradable on a secondary market (or the substantial equivalent thereof).

Section 1.7704-1(a)(3) provides that for purposes of section 7704(b), a transfer of an interest in a partnership means a transfer in any form, including a redemption by the partnership or the entering into of a financial instrument or contract described in § 1.7704-1(a)(2)(i)(b).

CONCLUSION

Based solely on the information submitted and the representations made, we conclude that the cancellation and reissuance of units of limited partnership interest in X as described above as part of the Compensation Program will not be treated as a transfer pursuant to § 1.7704-1(a)(3).

Except as specifically set forth above, no opinion is expressed or implied concerning the federal tax consequences of the facts described above under any other provision of the Code. In particular, we express no opinion concerning the federal tax classification of X or Y under section 7704 or the application of section 409A. Furthermore, no opinion is expressed concerning the application of the Self-Employment Contributions Act, the Federal Insurance Contributions Act, the Federal Unemployment Tax Act, or the Federal income tax withholding provisions to the Holding Unit Award Program.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

David R. Haglund

David R. Haglund

Chief, Branch 1

Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

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